

AR 71

Winspear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

## Fomack Energy Inc.

### Financial Statements

April 30, 1996



*Price Waterhouse*



August 28, 1996

## **Auditors' Report**

To the Shareholders of  
Fomack Energy Inc.

We have audited the balance sheets of Fomack Energy Inc. as at April 30, 1996 and 1995 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles.

*Price Waterhouse*

Chartered Accountants



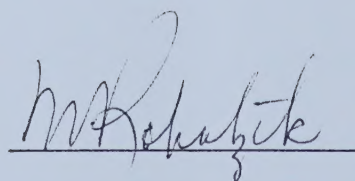


# Fomack Energy Inc.

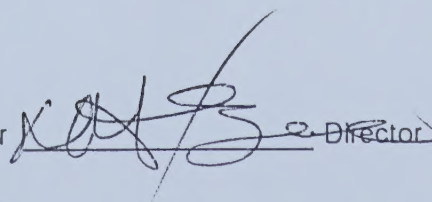
## Balance Sheet

	April 30	
	1996	1995
<b>Assets</b>		
Current assets		
Cash	\$ 978	\$ 120
Term deposits	112,271	201,964
Accounts receivable	<u>3,165</u>	<u>2,906</u>
	116,414	204,990
Capital assets (Note 3)	571,954	-
Incorporation costs	<u>1,106</u>	<u>1,106</u>
	<u>\$689,474</u>	<u>\$206,096</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,640	\$ 1,764
Payable to Archean Energy Ltd. (Note 4)	<u>494,906</u>	<u>-</u>
	504,546	1,764
<b>Shareholders' Equity</b>		
Share capital (Note 5)	247,555	247,555
Deficit	<u>(62,627)</u>	<u>(43,223)</u>
	<u>184,928</u>	<u>204,332</u>
	<u>\$689,474</u>	<u>\$206,096</u>

Approved by the Board



Director



Director



# Fomack Energy Inc.

## Statement of Operations and Deficit

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	Year ended April 30 1996 (Note 4)	Period from May 27, 1994 to April 30 1995
Revenue		
Petroleum and natural gas sales	\$43,157	\$ -
Royalties, net of Alberta Royalty Tax Credit	(1,810)	-
Interest	<u>7,925</u>	<u>4,970</u>
	49,272	4,970
Expenses		
Operating	8,490	-
Bank charges and interest	90	70
Depletion	13,046	-
Investigation costs	32,811	35,631
Office	10,578	10,892
Professional fees	<u>3,661</u>	<u>1,600</u>
	68,676	48,193
Loss for the period (Note 6)	19,404	43,223
Deficit, beginning of period	<u>43,223</u>	<u>-</u>
Deficit, end of period	<u>\$62,627</u>	<u>\$43,223</u>
Loss per share	<u>0.5¢</u>	<u>1.1¢</u>





# Fomack Energy Inc.

## Statement of Changes in Financial Position

	Year ended April 30 1996	Period from May 27, 1994 to April 30 1995
Operating activities		
Loss for the period	\$(19,404)	\$ (43,223)
Add: Item not affecting cash		
Depletion	13,046	-
Change in non-cash working capital	<u>(22,477)</u>	<u>(1,142)</u>
	<u>(28,835)</u>	<u>(44,365)</u>
Investing activities		
Incorporation costs	-	(1,106)
Additions to property, plant and equipment	(585,000)	-
Change in non-cash working capital	<u>525,000</u>	<u>-</u>
	<u>(60,000)</u>	<u>(1,106)</u>
Financing activities		
Issue of share capital	-	300,000
Share issue costs incurred	<u>-</u>	<u>(52,445)</u>
Cash provided by financing activities	<u>-</u>	<u>247,555</u>
(Decrease) increase in cash *	(88,835)	202,084
Cash, beginning of period	<u>202,084</u>	<u>-</u>
Cash, end of period	<u>\$113,249</u>	<u>\$202,084</u>

\* Cash is defined as cash and term deposits.



# Fomack Energy Inc.

## Notes to Financial Statements

April 30, 1996

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### 1. Incorporation

Fomack Energy Inc. was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on May 27, 1994. The private company restrictions were removed by Certificate of Amendment dated August 4, 1994.

### 2. Accounting policies

#### Capital assets

The Company follows the full cost method of accounting as set out in the Canadian Institute of Chartered Accountants' accounting guideline. Under this method, all costs of exploring for and developing reserves are capitalized and charged against earnings as set out in the notes on depletion and depreciation. Such costs include acquisition costs, geological and geophysical expenses, costs of drilling and completing both productive and non-productive wells and applicable overhead expenses. Proceeds on the disposal of properties are ordinarily deducted from such costs without recognition of gain or loss.

#### Depreciation and depletion

Depletion and depreciation of petroleum and natural gas properties and related tangible equipment (including costs required to develop proven reserves) is computed by the unit-of-production method based upon estimated proven reserves of oil and gas. All products are converted to equivalent barrels of crude oil based on relative sales values. A provision for restoration costs is also being made on the unit-of-production basis and charged to income with the depreciation and depletion.

#### Ceiling test

The Company applies a ceiling test, in accordance with CICA Guideline, to ensure that the capitalized costs of its petroleum and natural gas properties do not exceed allowable limits. For purposes of the ceiling test future net revenues from proven reserves are undiscounted and are reduced by estimated future removal and site restoration costs, general and administrative expenses, financing costs and income taxes.

#### Earnings per share

Earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the respective fiscal years. Fully diluted earnings per share are anti-dilutive and therefore are not disclosed.

### 3. Capital assets

Capital assets consist of the following:

	Cost	Accumulated depreciation and depletion	Net 1996	1995
Petroleum and natural gas properties	\$ 529,010	\$11,648	\$ 517,362	\$ -
Tangible assets	55,990	1,398	54,592	-
	<u>\$ 585,000</u>	<u>\$13,046</u>	<u>\$ 571,954</u>	<u>\$ -</u>





# Fomack Energy Inc.

## Notes to Financial Statements April 30, 1996

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### 4. Purchase agreement

Pursuant to an agreement dated April 10, 1996, the Company completed its major transaction and purchased certain oil and gas properties from Archean Energy Ltd. ("Archean"). The agreement is effective as of February 1, 1996 and closed on July 22, 1996. The purchase price consists of:

(a) Cash consideration	
Cash paid prior to April 30, 1996	\$ 60,000
Cash payable upon closing	<u>500,000</u>
	560,000
 (b) Share consideration	
250,000 Class "A" common shares to be issued upon closing at \$0.10 per share	<u>25,000</u>
 Total purchase price	<u>\$585,000</u>

The net operating revenue from the oil and gas properties for the period February 1, 1996 to April 30, 1996 has been reflected as net income of the Company and as a reduction in the payable to Archean.

### 5. Share capital

#### (a) Authorized

- (i) Unlimited number of Class "A" common voting shares without nominal or par value.
- (ii) Unlimited number of Class "B" common non-voting shares.
- (iii) Unlimited number of Class "C" non-voting preferred redeemable shares.

The Class "C" preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series, but each series shall have identical rights and restrictions except for the stated capital and redemption amount.

	1996	1995
(b) Issued		
4,000,000 Class "A" common shares	\$300,000	\$300,000
Less: Share issue costs	<u>(52,445)</u>	<u>(52,445)</u>
	<u>\$247,555</u>	<u>\$247,555</u>



# Fomack Energy Inc.

## Notes to Financial Statements April 30, 1996

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### (c) Stock options

The Corporation has established a stock option plan for the benefit of directors, officers and employees of the Corporation. On August 31, 1994, options were granted for an aggregate 400,000 Class "A" common shares and may be exercised at a price of \$0.10 per share until August 1, 1999.

The Corporation has also granted the Company's share issue agent an option to purchase 200,000 Class "A" common shares at \$0.10 per share. The option is exercisable at any time prior to 18 months from January 9, 1995, being the date of listing of the Company's shares on the Alberta Stock Exchange. These options expired subsequent to year end.

### 6. Income taxes

For income tax purposes, the Company has losses carried forward from prior years which can be used to reduce future year's taxable income. These losses expire as follows:

2002	\$ 52,992
2003	<u>82,222</u>
	<u>\$135,214</u>

These losses are partially offset by available tax deductions being less than the net book value of the capital assets by \$15,000. The potential benefit relating to the remaining available losses above has not been recorded in the financial statements.

### 7. Subsequent events

#### (a) Private placement

Under a private placement offering memorandum dated May 10, 1996, the Company made available a maximum of 100 units at \$3,200 per unit. Each unit consisted of:

- 20,000 common shares
- warrants to acquire an additional 20,000 common shares at a cost of \$0.25 per common share until December 31, 1997.

On July 19, 1996, 1,020,000 shares were issued pursuant to this private placement.





# Fomack Energy Inc.

## Notes to Financial Statements April 30, 1996

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### (b) Credit facility

On July 22, 1996 the Company entered into a \$210,000 revolving line of credit agreement with the Alberta Treasury Branches which is repayable on demand and bears interest at prime plus 1.75%. The facility is secured by a \$1,000,000 registered demand debenture providing a first fixed and floating charge over all assets and undertakings, a demand promissory note and a general security agreement.



**FOMACK ENERGY INC.**  
**BALANCE SHEET**  
**JULY 31, 1996**  
*(Unaudited - see Notice to Reader)*  
**ASSETS**

	<u>1996</u>	<u>1995</u>
<b>CURRENT ASSETS:</b>		
Cash and term deposits	\$ 5,301	\$ 202,619
Accounts receivable	52,708	-
GST receivable	<u>-</u>	<u>331</u>
	<u>58,009</u>	<u>202,950</u>
<b>CAPITAL ASSETS:</b>		
Oil & gas properties	529,010	-
Equipment	<u>55,990</u>	<u>-</u>
	585,000	-
Less: accumulated depletion	<u>26,092</u>	<u>-</u>
	<u>558,906</u>	<u>-</u>
<b>INCORPORATION COSTS</b>	<u>1,106</u>	<u>1,106</u>
	<u>\$ 618,018</u>	<u>\$ 204,056</u>

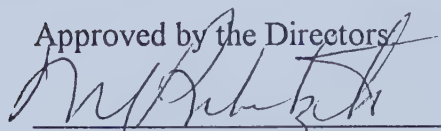
**LIABILITIES**

<b>CURRENT LIABILITIES</b>		
Bank loan	\$ 210,000	\$ -
Subscriptions received	163,200	-
Accounts Payable	<u>61,934</u>	<u>1,177</u>
	<u>435,134</u>	<u>1,177</u>

**SHAREHOLDERS' EQUITY**

<b>CAPITAL STOCK:</b>		
Authorized:		
Unlimited Class "A" common voting shares		
Unlimited Class "B" common non-voting shares		
Unlimited Class "C" non-voting preferred shares		
Issued:		
4,000,000 Class "A" common shares	300,000	300,000
<b>ISSUE COSTS</b>	<u>52,445</u>	<u>52,445</u>
	247,555	247,555
<b>DEFICIT</b>	<u>64,671</u>	<u>44,676</u>
	<u>182,884</u>	<u>202,879</u>
	<u>\$ 618,018</u>	<u>\$ 204,056</u>

Approved by the Directors

  
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 Marion R. Robatzek, Director

  
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 Douglas Beck, Director





**FOMACK ENERGY INC.**  
**STATEMENT OF INCOME AND DEFICIT**  
**FOR THE THREE MONTHS ENDED JULY 31, 1996**  
*(Unaudited - See Notice to Reader)*

	<u>1996</u>	<u>1995</u>
INCOME:		
Oil and gas revenue, net of royalties	\$ 53,881	\$ -
Interest	<u>637</u>	<u>2,590</u>
	<u>54,518</u>	<u>2,590</u>
EXPENSES:		
Operating costs	30,600	-
Depletion	13,046	-
Office	10,453	3,172
Insurance	1,250	-
Investigation costs	960	871
Professional fees	<u>253</u>	<u>-</u>
	<u>56,562</u>	<u>4,043</u>
NET LOSS FOR THE PERIOD	2,044	1,453
DEFICIT AT BEGINNING OF PERIOD	<u>62,627</u>	<u>43,223</u>
DEFICIT AT END OF PERIOD	\$ <u>64,671</u>	\$ <u>44,676</u>
LOSS PER SHARE	\$ <u>0.000</u>	\$ <u>0.000</u>



**FOMACK ENERGY INC.**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE THREE MONTHS ENDED JULY 31, 1996**  
*(Unaudited - See Notice to Reader)*

	<u>1996</u>	<u>1995</u>
SOURCE (USE) OF CASH FROM OPERATIONS:		
Net loss for the period	\$ (2,044)	\$ (1,453)
Add: depletion	<u>13,046</u>	<u>-</u>
	11,002	(1,453)
Increase in GST receivable	-	2,575
Increase in accounts receivable	(49,543)	-
Increase in Accounts payable	<u>52,299</u>	<u>(587)</u>
	<u>13,758</u>	<u>535</u>
FROM FINANCING:		
Subscriptions received	163,200	-
Payment of purchase financing	(494,906)	-
Bank Loan	<u>210,000</u>	<u>-</u>
	<u>(121,706)</u>	<u>-</u>
CHANGE IN CASH	(107,948)	535
CASH BALANCE, beginning of period	<u>113,249</u>	<u>202,084</u>
CASH BALANCE, end of period	\$ <u><u>5,301</u></u>	\$ <u><u>202,619</u></u>

